Japanese Carbon and Alloy Flat Products Exclusion Request

Product Category: Hot-Rolled Products (#3)

(a)	Product Designation/HTS	**SCM 415 (modified)** 7225.30.3050, 7225.30.7000
(b)	Product Description	C : 0.13% MIN - 0.18% MAX Si : 0.15% MIN - 0.35% MAX Mn : 0.60% MIN - 0.85% MAX P : Equal to or less than 0.03% S : Equal to or less than 0.03% Cr : 0.90% MIN - 1.20% MAX Mo : 0.15% MIN - 0.30% MAX Yield strength : Equal to or exceed 450N/mm^2 Tensile strength : 580 N/mm^2 MIN - 700 N/mm^2 MAX Elongation : Equal to or exceed 18%
(c)	Basis for Exclusion	See text below
(d)	Names and Location of U.S. and Foreign Producers	See Attachment A
(e)	U.S. Consumption	See Attachment B
(f)	U.S. Production	See Attachment B
(g)	Substitutible Products	See Attachment C

Attorney Contact: Matthew R. Nicely (202-429-4705, mnicely@willkie.com) or
Julia K. Eppard (202-429-4709, jeppard@willkie.com)
Willkie Farr & Gallagher

SCM 415 (modified) has no parallel in the United States as it is a newly designed steel that was developed specifically for Sony to use in its televisions. It has unique properties that make it stronger and an overall better quality product for this use. SCM 415 (modified) should not be subject to quotas or increased tariffs as it does not injure the domestic industry.

SCM 415 (modified) is not available from domestic suppliers in the United States. It was jointly developed by SMI and Sony Electronics for use in Sony's televisions. This is both a higher grade of steel and is stronger than the SCM 415. This product is so new that it has not yet been shipped into the United States. Sumitomo Metal Mining USA ("SMMU"), which manufactures frames for Sony, has ordered some modified SCM 415 and is ready to begin the certification process with Sony.

SMMU will manufacture the A-member of the television frame from the modified SCM 415. The frames are made with two materials: the B-member (made from SCM 415 pipe supplied by Western Tube and Conduit Corp.) and the A-member (made from modified SCM

415 steel supplied by SMI). SMMU will buy the modified SCM 415 in a hot-rolled coil and then it will bend and cut it to make the A-member. Then SMMU bends and cuts the B-member material supplied by Western Tube. SMMU then welds both pieces together to make the frame and they finish it with heat-treatment. SMMU sells the finished television frames to Sony. Mr. Yamasaki of SMMU explains:

> The modified SCM 415 is necessary to meet the unique requirements of Sony's televisions. Running the length of the t.v. frame is a high-tension wire that applies great force to the frame. The modified SCM 415 is essential as it is stronger than the SCM 415 and will not deform under the pressure.[1]

John Halac of Sony Electronics explains that this steel is especially suited for their uses. "The chemical properties of this steel allows for better aperture grill tension, less outgasing and more stable magnetic characteristics."[2] There currently is no domestically produced steel that can meet Sony's specifications for their 29" CRT. Even if a domestic producer were able to duplicate this unique steel, it would take Sony six to twelve months to certify it and complete their "life test" studies.[3] Beyond the delay required to certify any new steel. Sony would have to redesign its CRT to accommodate the variances in the new steel and several parts of the CRT would have to be redesigned.[4]

Sony Electronics is particularly vulnerable to the potential decisions of this case. It purchases five types of specialty steel and must be able to import these products to continue production of its CRTs.[5] Sony manufactures CRTs in both Mount Pleasant, Pennsylvania and San Diego, California. In those two facilities Sony has over [ ] employees, and purchases from over 1,200 domestic suppliers.[6] Currently, Sony Electronics is the only domestic manufacturer of direct view televisions in the United States. There used to be 34 other television manufacturers in the United States in 1990. However, a vast majority of them have relocated their facilities in Mexico where the labor is significantly cheaper and where they pay only [ ] the duty rate on their imports due to a special program called PROSEC that has significantly reduced duties on Non-NAFTA parts imported into Mexico.[7] If a 40% tariff were placed on Sony's imports, they would lose over [ ] a year.[8] Because of the intense

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1 *See* Affidavit of Tohru Yamasaki, President of Sumitomo Metal Mining (**Attachment D**).

2 *See* Affidavit of John Halac, Purchasing Supervisor of Sony Electronics (**Attachment D**).

3 *Id.*

4 *Id.*

5 See the following exhibits for those arguments: Coated Steel Sheet for Reinforcement of Heat-Shrinkable Bands; Tin Free Steel for Inner Magnetic Shields; SCM 415, SCM 415 (modified), and NST 490 for CRT frames.

6 *See* Affidavit of John Halac and Louis Dubois of Sony Electronics (**Attachment D**).

7 *Id.*

8 *See* Affidavit of Tohru Yamasaki, President of Sumitomo Metal Mining (**Attachment D**).

competition they face with cheap imports from Mexico, Sony would not be able to continue manufacturing at its current levels.

SMMU must be able to import the modified SCM 415 as there is no domestic steel that can meet its specifications. SMMU will begin to test its sample of SCM 415 (modified) in December. Sony, in Japan, has already been using this successfully, so there is no reason to believe it will not meet the specifications for Sony, USA. The product is only available from Japan and there is no substitute in the United States. As SCM 415 does not meet Sony's specifications for the 29" television frame, SMMU must purchase the modified SCM 415 from Japan. These imports do not injure any portion of the domestic industry as there is no domestic industry manufacturing this product. SCM 415 (modified) should be excluded from any remedy in this investigation.

Attachment A

Foreign Producers

(1) Sumitomo Metal Industries, Ltd.

- Address: Triton Square Office Tower Y, 8-11, Harumi 1-chome, Chuo-ku, Tokyo 104-61111, Japan
- Phone: 011-81-3-4416-6148
- Fax: 011-81-3-4416-6788

Domestic Producers

- No Known Domestic Producers

HOT-ROLLED

SCM 415 (modified)

Quantity						January - June		Projections				
Company	**1996**	**1997**	**1998**	**1999**	**2000**	**YTD 2000**	**YTD 2001**	**2001**	**2002**	**2003**	**2004**	**2005**
[	0	0	0	0	0	0	0	0	0	1,292	1,498	1,399
Total	0	0	0	0	0	0	0	0	0	1,292	1,399	1,399]

Value *						January - June		Projections				
Company	**1996**	**1997**	**1998**	**1999**	**2000**	**YTD 2000**	**YTD 2001**	**2001**	**2002**	**2003**	**2004**	**2005**
[	0	0	0	0	0	0	0	0	459,991	736,311	854,120	854,120
Total	0	0	0	0	0	0	0	0	459,991	736,311	854,120	854,120]

U.S. Production	0	0	0	0	0	0	0	0	0	0	0	0
Imports from Other Countries	0	0	0	0	0	0	0	0	0	0	0	0
Total U.S. Consumption												
[Quantity	0	0	0	0	0	0	0	0	0	1,292	1,399	1,399]
[Value	0	0	0	0	0	0	0	0	459,991	736,311	854,120	854,120]

Attachment C

Known Substitutable Product: NST 490

U.S. Production: unknown

U.S. Producers: unknown

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Attachment D

SUMITOMO METAL MINING U.S.A., INC.
OCEANSIDE DIVISION
4055 CALLE PLATINO
OCEANSIDE, CALIFORNIA 92056

Telephone (760) 941-4500
Facsimile (760) 941-0900

AFFIDAVIT OF TOHRU YAMASAKI
PRESIDENT, SUMITOMO METAL MINING USA., INC.

I, Tohru Yamasaki, declare and state to the best of my knowledge, information, and belief, that:

1. I am the President of Sumitomo Metal Mining USA, Inc. (SMMU) in Oceanside, California. SMMU manufactures the TV frame for Sony Electronics' televisions. In order to meet our customer's specifications for the TV frames, we must import SCM 415 (modified) steel as there is no domestic product that will meet our needs.

2. SCM 415 (modified) is a new product that was jointly developed by Sumitomo Metal Industries Ltd. (SMI) and Sony for use in Sony's televisions. This is a higher grade of steel than SCM 415 and it is also stronger. Currently SMMU ordered some modified SCM 415 and is ready to begin the certification process with Sony. The sample material will be in at the end of this month and we will begin production in December. As SCM 415 does not meet Sony's specifications for the 29" television, SMMU must purchase the modified SCM 415 from Japan. We do not foresee any difficulties with acquiring Sony's certification, as Sony (Japan) has already been using this product and is very pleased with the results.

3. The TV frames are made with A-members and B-members. We purchase the B-member material from Western Tube and Conduit Corp., and we purchase modified SCM 415 for the A-member material. The B-member comes to us as a square tube and the SCM 415 modified for the A-member comes as a hot-rolled slit coil. To make the A-member, we bend and cut the modified SCM 415 slit coil. To make the B-member, we bend and cut the square tube. After making the A-member and the B-member, we weld both together to produce a frame, then heat-treat it. It is then shot blasted and milled to make the steel TV frame that is used in the cathode ray tube. SMMU then sells these TV frames to Sony.

4. The modified SCM 415 is necessary to meet the unique requirements of Sony's 29" televisions. Running the length of the TV frame is a high-tension wire that applies great force to the frame. The modified SCM 415 is essential, as it is stronger than the SCM 415 and will not deform under the pressure.

5. There is no domestic product that can match the characteristics of the modified SCM 415. SMMU has to be able to import SCM 415 (modified) in order to meet Sony's specifications. These imports do not injure any portion of the domestic industry, as there is no domestic industry manufacturing this type of product. SCM 415 (modified) should be excluded from any remedy.

Mr. Tohru Yamasaki

October 26, 2001
Dated

Subscribed and sworn to before me this 26TH day of October 2001.

Notary Public

My commission expires: Feb 1, 2004

OFFICIAL SEAL
MICHAEL C. KNUDSON
NOTARY PUBLIC-CALIFORNIA
COMM. NO. 1248455
SAN DIEGO COUNTY
MY COMM. EXP. FEB. 1, 2004

PUBLIC VERSION

SONY

PUBLIC VERSION

Sony Electronics Inc., Display Device Pittsburgh
Sony Electronics Inc., Sony Technology Center – San Diego

AFFIDAVIT OF JOHN HALAC, PURCHASING SUPERVISOR
AND LOUIS DUBOIS, PURCHASING AGENT, SONY ELECTRONICS INC.

We, John Halac and Louis Dubois, declare and state to the best of our knowledge and belief, that:

1. Sony Electronics produces color television picture tubes in San Diego, California and Mount Pleasant, Pennsylvania. We use domestic steel as well as imported steel from Japan to produce our cathode ray tubes (CRTs) for our televisions. Specifically, we use several specialty Japanese steel products that are not available domestically. The imported steel includes coated steel sheet for heat-shrinkable bands; steel used for inner magnetic shields ("IMS") for Sony's 42RSN model; hot-rolled SCM 415 frame steel, hot-rolled SCM 415 modified frame steel, and hot-rolled NST490 frame steel used in the production of CRTs. In particular, for FY'02 our Pittsburgh facility will use approximately [ ] tons of IMS steel for the 42 RSN CRT model, [ ] tons of steel for heat-shrinkable bands and [ ] tons of SCM 415 hot rolled steel. For FY'02, our San Diego facility will use approximately [ ] tons of SCM 415 modified steel, [ ] tons of NST490 frame steel and [ ] tons of steel for heat-shrinkable bands. As you can see, the total amount of imported steel used by Sony's plants, only [ ] tons, is insignificant in comparison to the total amount of imported steel subject to this investigation, but the impact to Sony on any additional duties or quota will be disproportionately significant.

2. Sony is a large employer in the television industry. The Mount Pleasant facility alone employs [ ] full-time workers with a total payroll approaching [ ]. The San Diego facility employs [ ] people with a total payroll of approximately [ ].

3. We face intense competition from foreign CRT producers because they have lower production costs. In fact, former U.S. television manufacturers have moved their facilities to Mexico to benefit from these lower costs. For example, the cost of labor in the United States is significantly higher than the cost of labor in Mexico. From 1995 to 1998, U.S. consumption of CRTs dropped from 14 million units to 10 million units. In 1990, there were 34 television manufacturing facilities in the United States with approximately 26,000 workers. Presently, there are only a few U.S. manufactures of direct view televisions in the United States. Conversely, manufacturing facilities in Mexico have increased from 13 television manufacturers in 1998 to 22 in 2001. This trend has continued and will continue as U.S. television manufacturers are forced to compete with cheaper imports.

4. Placing tariffs on the imported steel would have a dramatic adverse impact on our profitability. Currently there are relatively small profit margins generated by our manufacture of color televisions. As a matter of fact, Sony recently shut-down two CRT production lines for computer monitors because Sony could not compete with the less expensive CRTs produced overseas. This resulted in a loss of [ ] U.S. jobs in San Diego. There is a constant pressure to reduce costs due to cheaper televisions being imported from foreign sources. This situation is compounded by the fact that television manufacturers in Mexico can export their televisions to the United States duty free due to NAFTA.

5. The application of any additional duties places Sony at a continued disadvantage as compared to our fellow NAFTA members, Mexico and Canada. For example, Mexico has a program called PROSEC that has reduced the duty on Non-NAFTA television parts imported into Mexico to 0.5%. This allows Mexico to produce televisions at reduced costs as well as importing the finished goods into the U.S. and Canada duty free. Canada initiated a similar program in 1994. The United

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States has no parallel program resulting in an average U.S. duty rate of [ ]% for our television parts. Because we have to pay a duty that is [ ] times higher for television parts, our cost of production is significantly higher than the cost of manufacturing in Mexico and Canada. This places us at a considerable disadvantage with imports of CRTs and televisions from Mexico and Canada. Imposing additional duties on the imported steel we use would only further put Sony at a disadvantage.

6. Sony has made a commitment to maintain its presence in the United States and will continue to manufacture televisions and CRTs here as long as we are able to remain profitable. Factors such as NAFTA duty preference, reduced transportation costs and efficient use of logistics are significant benefits to the continued manufacture of televisions and CRTs in the United States. Additionally, Sony's CRT and television manufacturing has supported a network of over 1,300 local vendors from whom many of our parts are purchased. Sony is committed to supporting communities where its employees work and live. These suppliers require certain steel products as essential raw materials. We must turn to imported steel when domestic suppliers are unable to provide us products at the quality levels required and delivery times necessary to meet our needs.

7. With the intense competition from off-shore television and CRT manufacturers, we cannot afford to pay increased tariffs or suffer any quota on our imported steel. Due to the specific design of our CRTs, Sony is required to purchase HS Band steel, IMS 42RSN steel NST490 frame steel and the SCM 415 frame steel with particular specifications. At this time, we are testing the SCM 415 (modified). Other than the NST490, we believe the SCM 415 (modified) is the only other steel able to meet our needs for our 29" CRT. Our imported steel is not available domestically. Even if a comparable steel were available, we would have to redesign the various parts of the CRT and that would be cost-prohibitive. We estimate that a 40% tariff on our imported steel we use would raise our costs of production by approximately [ ] in our Mount Pleasant facility and [ ] in our San Diego facility. Given that intense competition has already minimized our profit margin on CRTs, we would not be able to continue manufacturing at our current levels.

8. This steel is not available domestically and placing quotas would only limit the amount Sony can expand production of its televisions. In addition, supply disruptions caused by quotas could restrict current production levels. A tariff or quota would not help domestic steel producers as they do not compete with these products. Increased tariffs or quotas would only force us to drastically cut our revenue and might ultimately force us to move our facilities to lower-cost areas of the world. Steel used to produce HS Bands, IMS for the 42RSN model, NST490 frame, SCM 415 frame and SCM 415 (modified) frame steel should all be excluded from any remedy recommendation to the President.

John Halac,
Purchasing Supervisor
SONY Display Device - San Diego

Louis Dubois
Purchasing Agent
SONY Display Device, Pittsburgh

Dated: November 12, 2001

Westmoreland County
Commonwealth of Pennsylvania

On this the 12th Day of November, 2001

Louis Dubois appeared before me to notarize his signature.

Maryann Schach My Commission expires September 14, 2002

Notarial Seal
Maryann Schach, Notary Public
East Huntingdon Twp., Westmoreland County
My Commission Expires Sept. 14, 2002
Member, Pennsylvania Association of Notaries

PUBLIC VERSION

PUBLIC VERSION

SONY

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Sony Electronics Inc., Technology Center San Diego
16450 West Bernardo Drive, San Diego, California 92127-1898 Telephone (858) 942-8500

AFFIDAVIT JOHN HALAC, PURCHASING SUPERVISOR, SONY ELECTRONICS INC.

I, John Halac, declare and state to the best of my knowledge and belief, that:

1. Sony Electronics produces color television picture tubes in San Diego, California and Mount Pleasant, Pennsylvania. We use imported steel from Japan to produce our cathode ray tubes (CRTs) for our televisions. Specifically, we import several specialty Japanese steel products that are not available domestically. We are currently in the process of certifying a new steel that has just been invented **by both** Sony and Sumitomo Metal Industries (SMI) in Japan -- SCM 415 (modified).

2. This steel was specifically developed for our [ ] CRT. Due to the larger size of the CRT, the steel is under very high pressure, higher than the CRTs we produce with SCM 415. The traditional SCM 415 would deform under this pressure and would not hold up. We have been using the SCM 415 (modified) in Japan and have had great success with it. It is able to withstand higher pressures without deforming. This is the only steel of which we are aware that will meet our specifications.

3. There is no substitute for this steel. No domestic producer has been able to duplicate its unique properties. The chemical properties of this steel allows for better aperture grill tension, less outgasing and more stable magnetic characteristics. SCM 415 (modified) works in unison with the other metal parts inside the CRT and each component affects the magnetic properties of the other. Even if we were suddenly able to find a comparable steel domestically, we would need to extensively test the steel in CRTs. Testing new steel takes six to twelve months to complete due to the requirement of 'life test' studies, which show the effects of the steel on the performance of the CRT over the expected and warranted life of the television. If the domestic steel does not perform comparably we would need to redesign our [ ] CRT to be able to use it. It would no longer be cost effective to produce that product. CRT production is capital intensive and we must achieve high capacity utilization rates to remain profitable. We simply could not afford a six to twelve month delay of production.

4. This steel is not available domestically and placing quotas would only limit the amount [ ] can expand production of this type of television. Placing tariffs on this would not help domestic steel producers as they do not compete with these products. Increased tariffs would only force us to drastically cut our revenue and might ultimately force us to move our facilities to lower-cost areas of the world. SCM 415 (modified) should be excluded from any remedy recommendation to the President.

John Halac

Dated: 11/12/01

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